

THE ROLE OF ECONOMIC POLICIES IN A MORE GEOPOLITICAL WORLD: AN EU PERSPECTIVE

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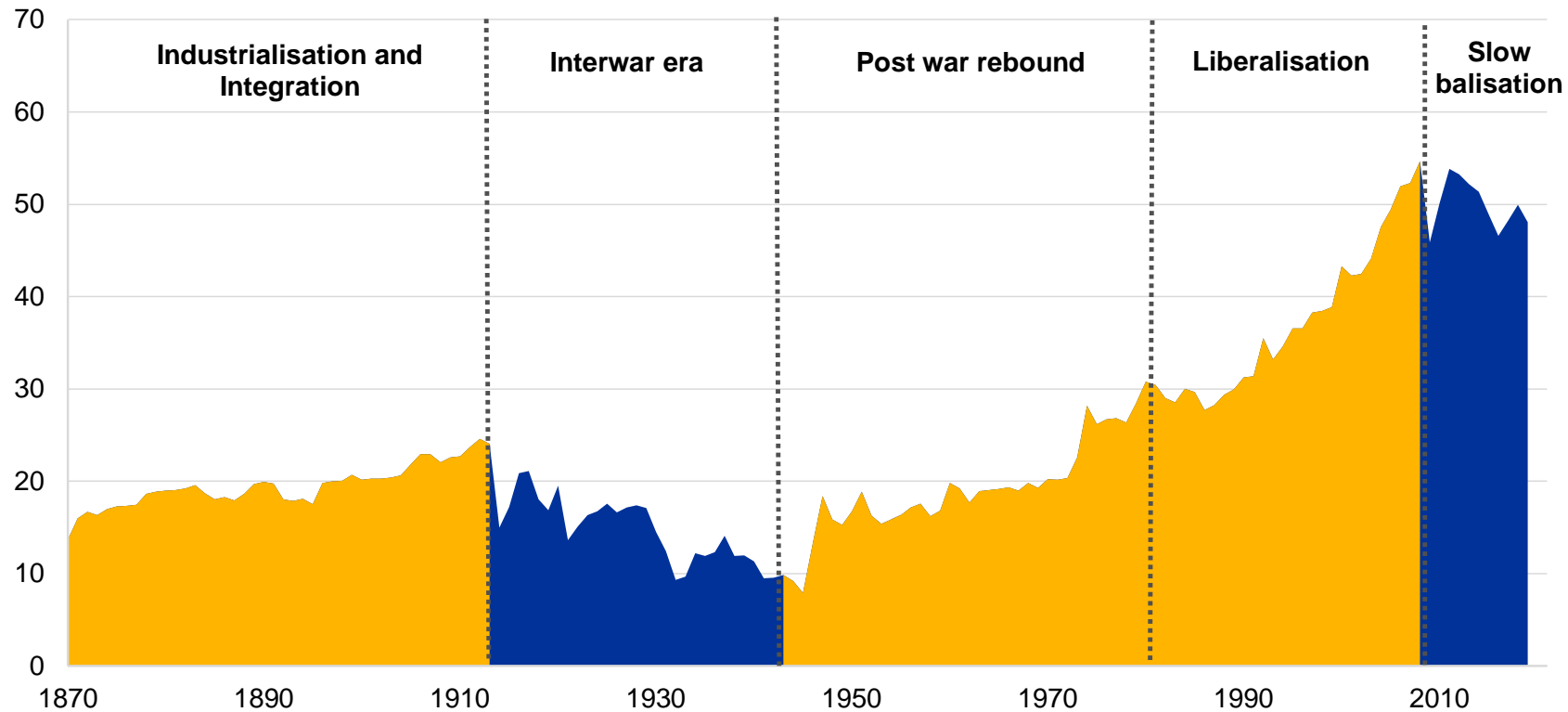
Globalisation and geopolitics

Interdependencies of the EU with the global economy

A more “geopolitical” economic policy?

Developments in world trade since the 1870s

(Exports plus imports as a percentage of GDP)

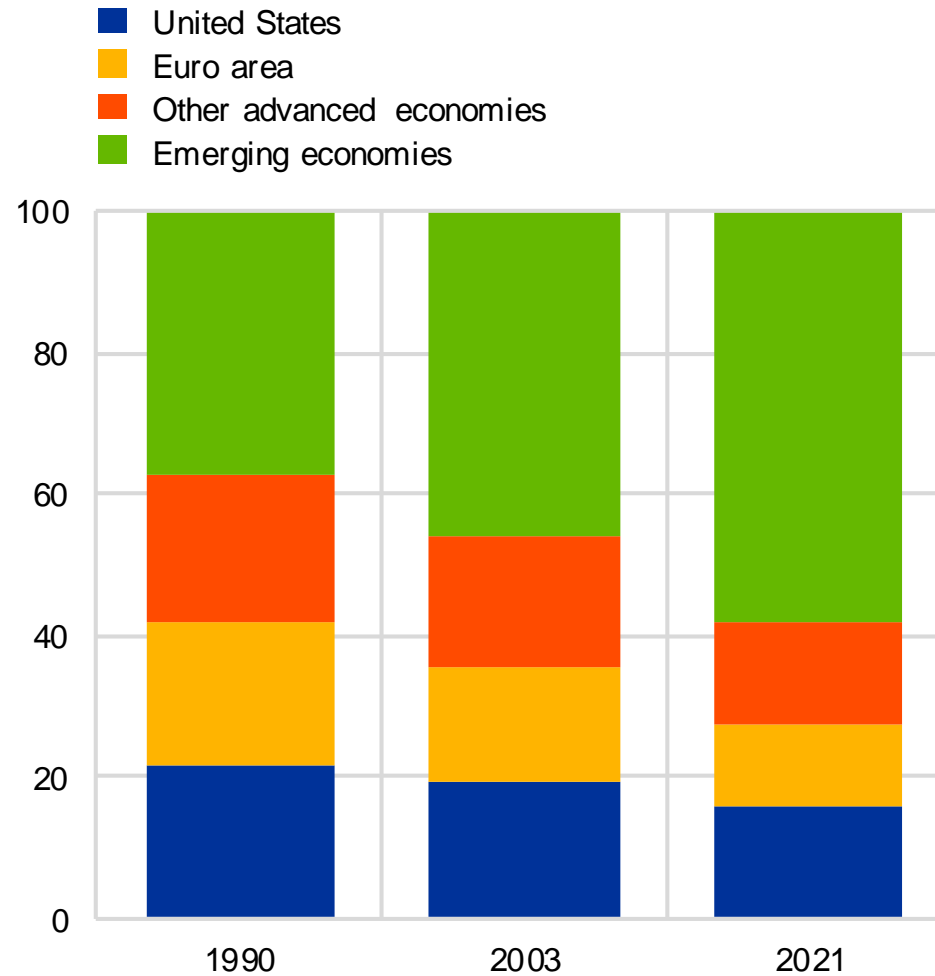


Sources: Based on Klasing, M.J. and Millionis, P. (2014), "Quantifying the evolution of world trade, 1870-1949", *Journal of International Economics*, Vol. 92, No 1, January, pp. 185-197, and ECB staff calculations.

Notes: Trade shares correspond to the sum of exports plus imports (from Barbieri, K., Keshk, O. and Pollins, B.M. (2009), "Trading Data: Evaluating our Assumptions and Coding Rules", *Conflict Management and Peace Science*, Vol. 26, No 5, November, pp. 471-491) over the reported estimated aggregate GDP. Estimated levels of aggregate GDP for 70 countries expressed in current-price US dollars and not adjusted for purchasing power differences.

World GDP, by region

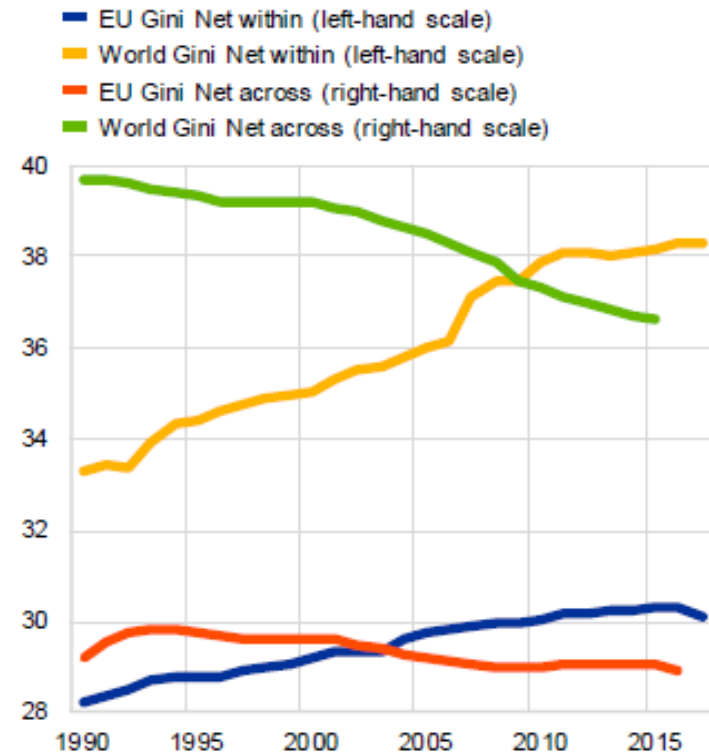
(percentages, at market exchange rates)



Trends in inequality within and across countries

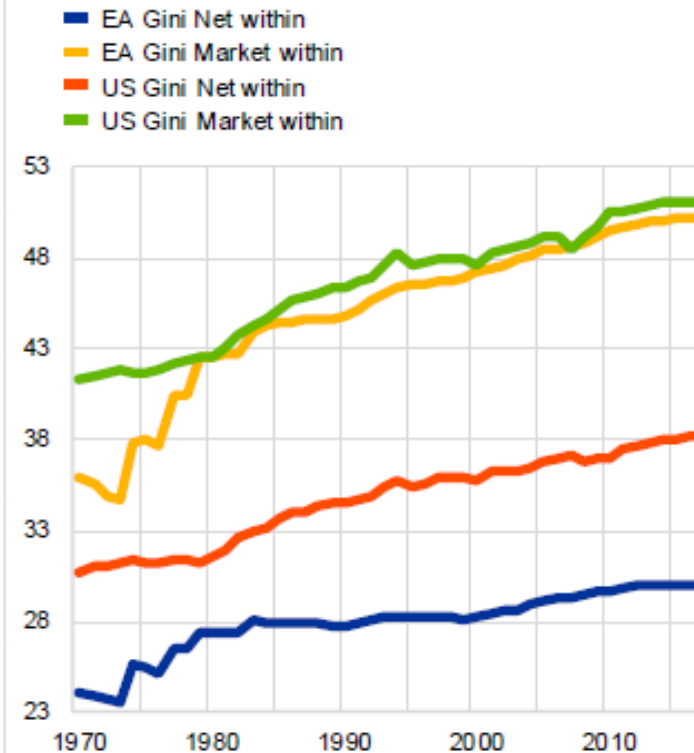
a) Inequality measures in the EU and worldwide

(index)



b) Euro area and the United States

(index)

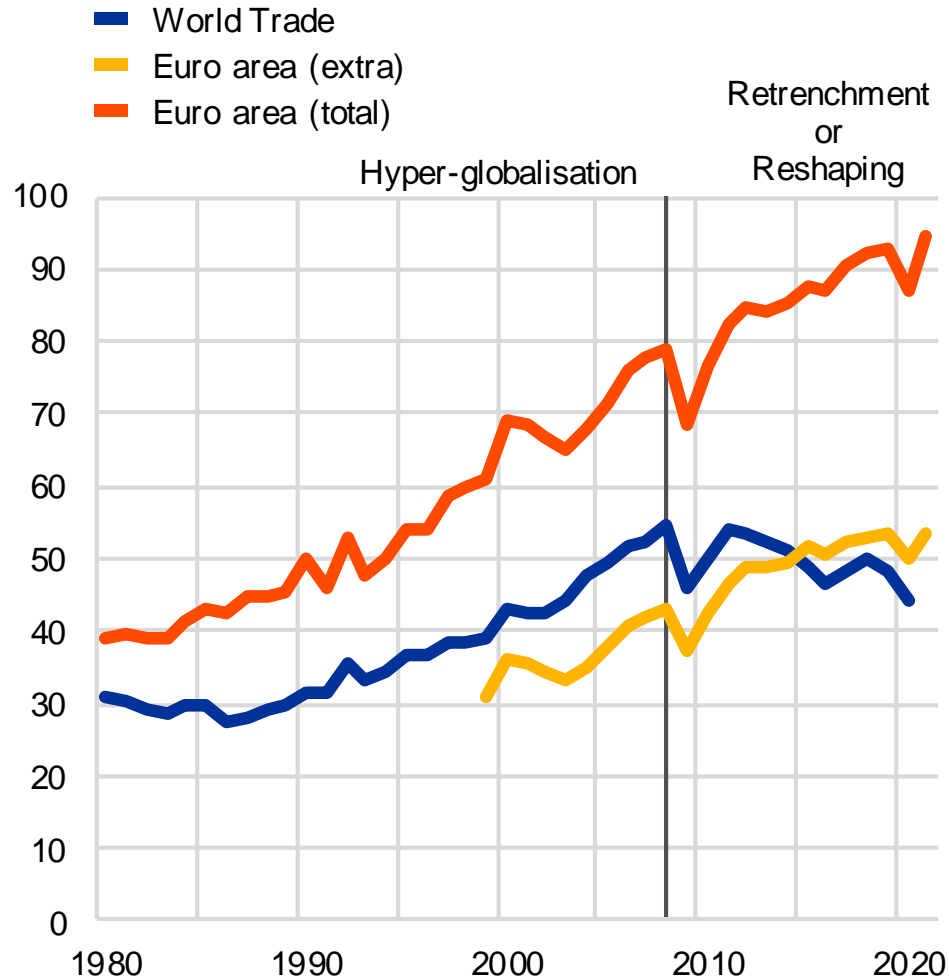


Sources: Box 5 in the ECB strategy review ([Work stream on globalisation](#), 2021), [Darvas \(2019\)](#) and World Bank.

Notes: The within-countries index is computed as a weighted average of country-level Gini coefficients using GDP purchasing power parity (PPP) shares as weights. The across-country Gini index is computed as explained in [Darvas \(2019\)](#): a world income distribution is calculated using country-level income distributions which are estimated based on two parameters assuming log-normal income distributions at the country level across the world. Gini Market is pre-tax; Gini Net is post-tax. The latest observation is for 2017 (2016 for World Gini).

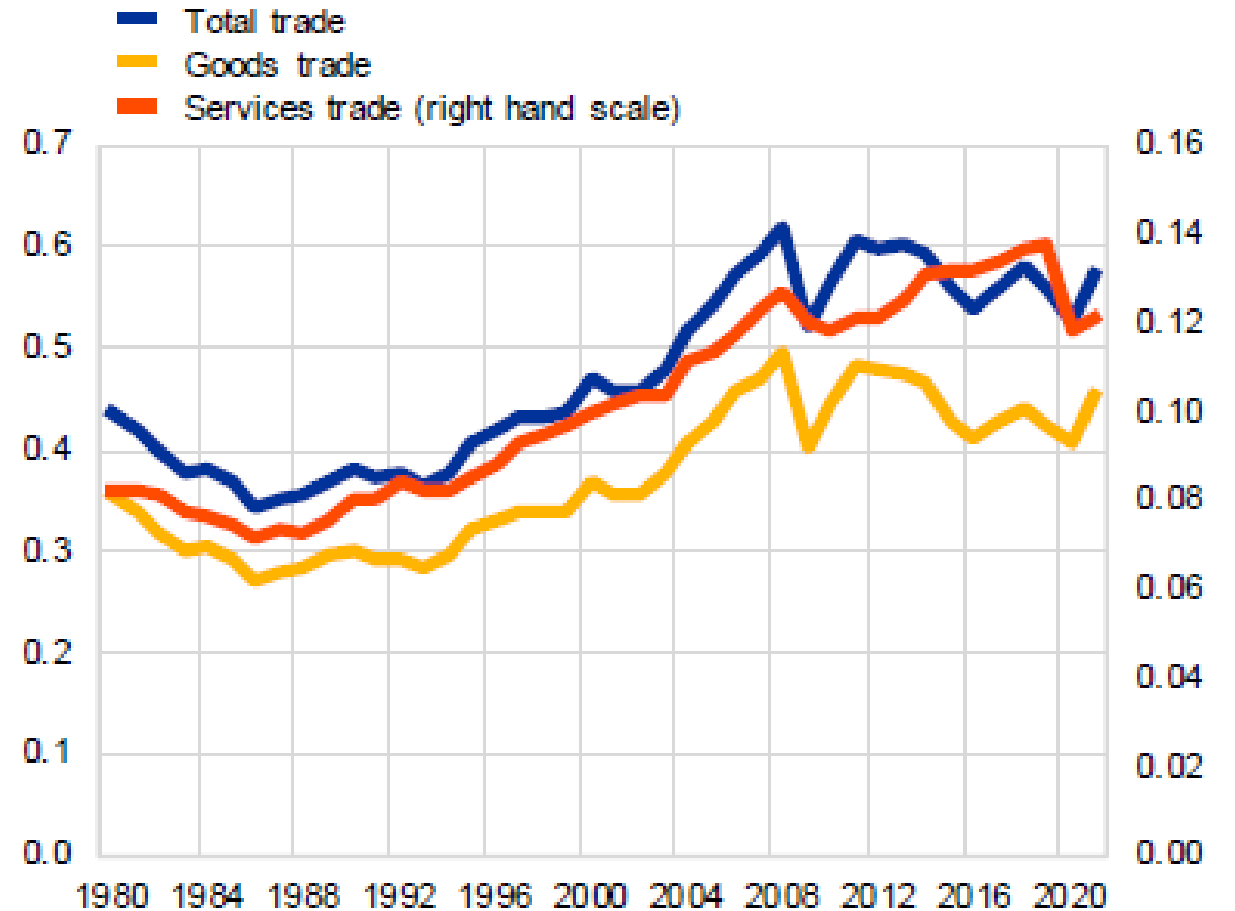
Euro area trade

(percentage of euro area and world GDP)

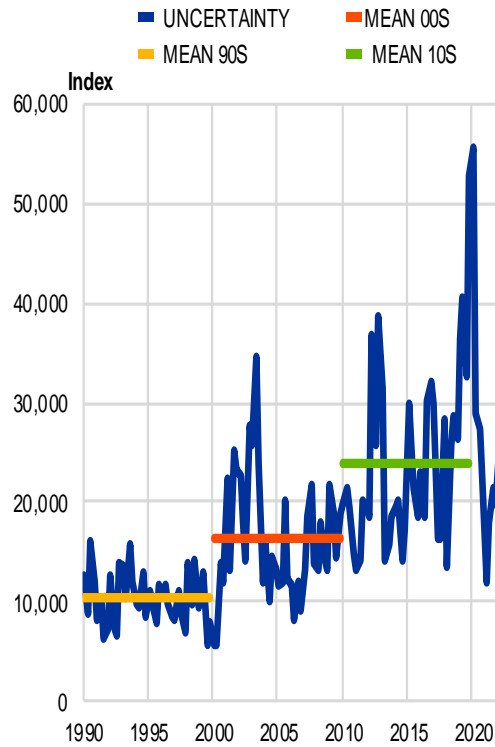


Services and goods trade

(sum of imports and exports related to GDP)

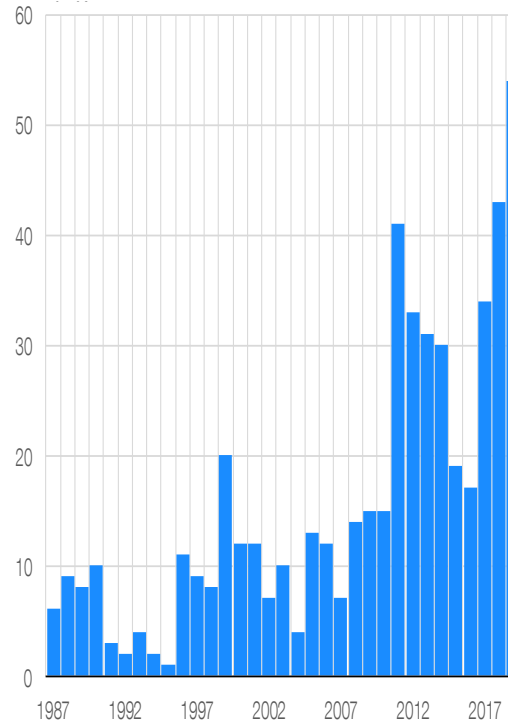


World uncertainty index



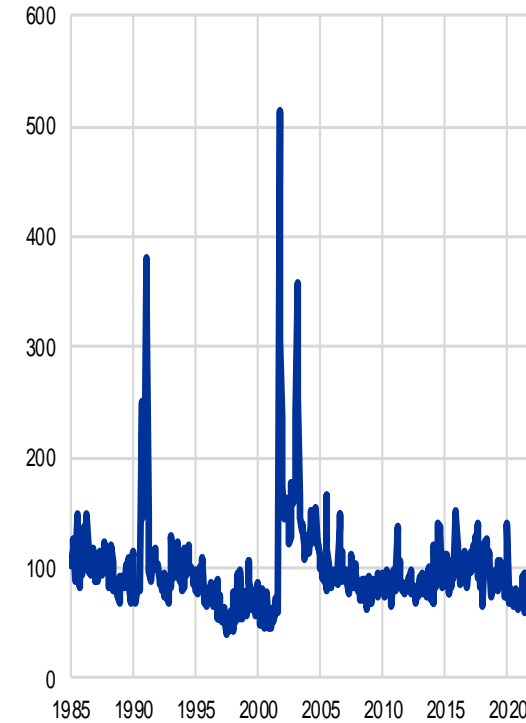
GDP weighted average of countries

Social Unrest Index



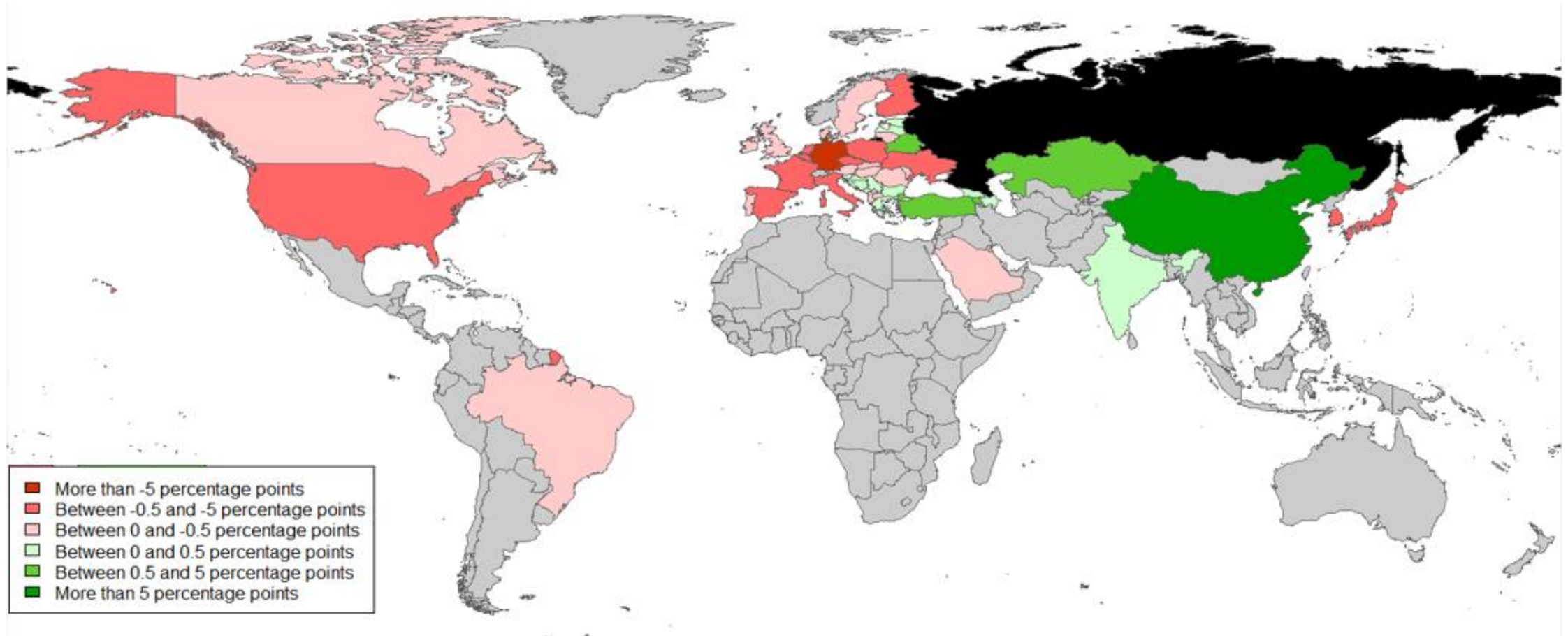
IMF, number of unrest events

Geopolitical risk index



Russia has become more dependent on China and other eastern countries for its imports

(Change in share of total Russian imports from January 2022 to January 2023, percentage points)



Sources: Trade Data Monitor, national statistical authorities and ECB staff calculations.

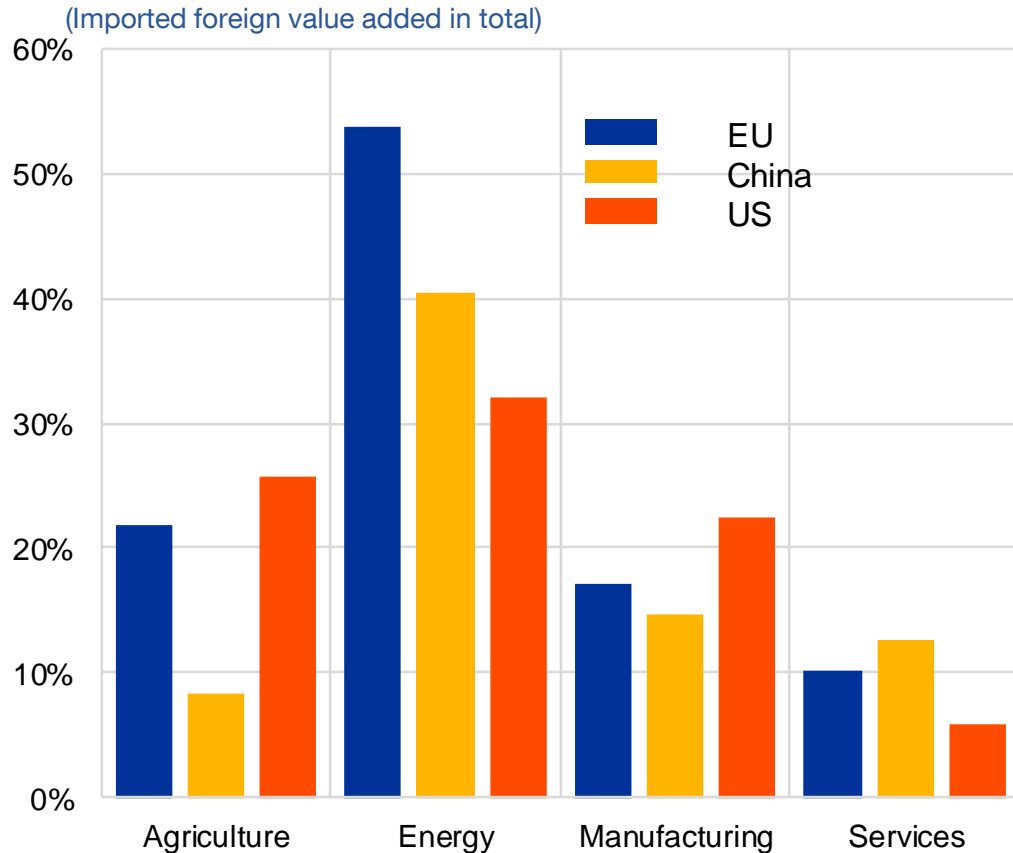
Notes: Based on customs data from 51 of Russia's main trading partners.

Globalisation and geopolitics

Interdependencies of the EU with the global economy

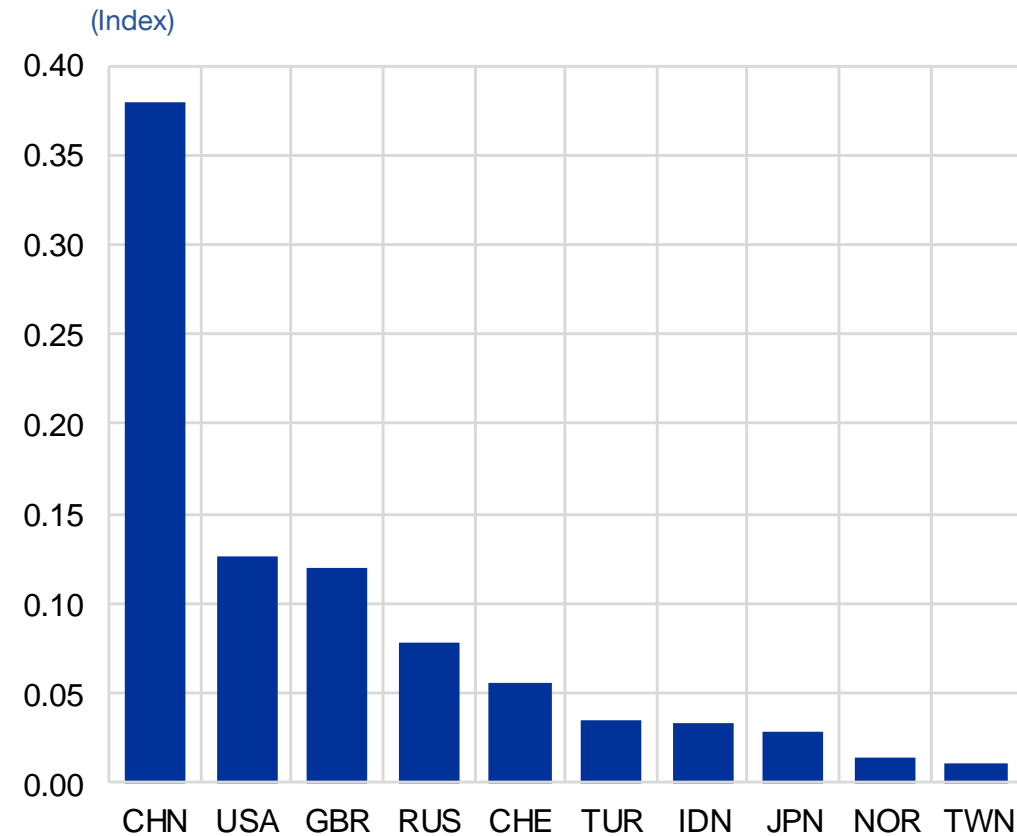
A more “geopolitical” economic policy?

Import dependency at the macro-sectoral level



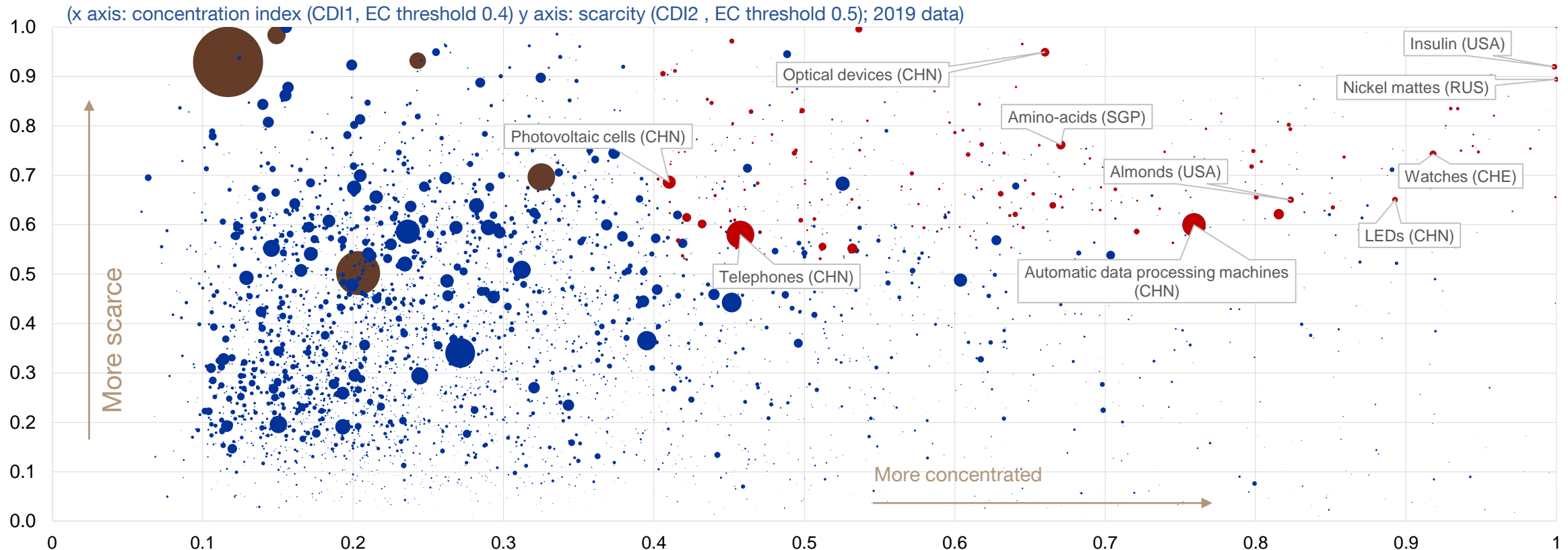
Source: Chart 4 of the Report. Own elaboration with OECD Trade in Value Added (TiVA) data for 2018 and the Inter-Country Input-Output Stata tool icio (see Belotti et al., 2021). Foreign VA by sector of origin directly or indirectly imported by region I / (Foreign VA by sector of origin directly or indirectly imported by region I + region I VA by sector of origin).

EU bilateral import concentration index



Source: Chart 12a of the Report. Own elaboration based on CEPII BACI database. Bilateral import concentration is measured by weighing the total extra-EU import value for each Harmonized System Level six (HS-6) product group for which the partner country is the main exporter to the EU, by the respective import concentration index (CDI1).

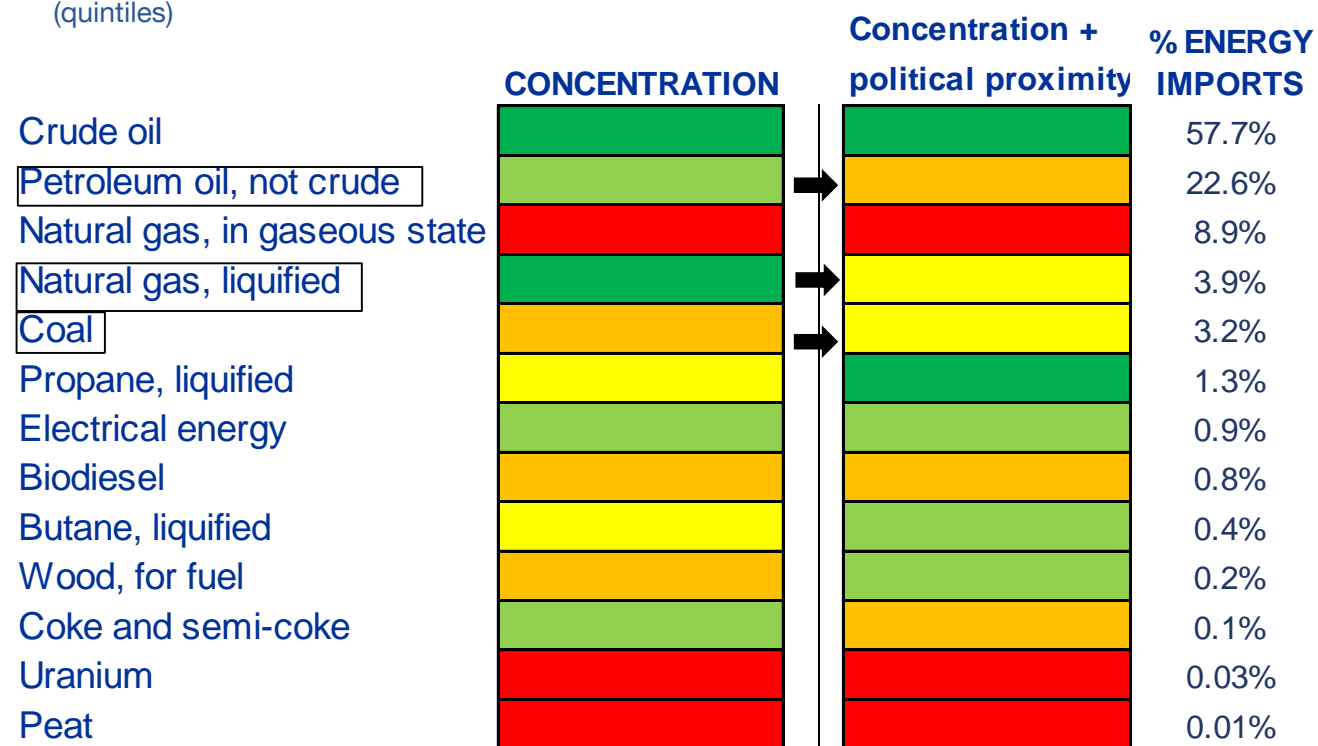
Concentration and scarcity of imports to the EU



Source: Chart 11 of the Report. Own calculations based on CEPII-BACI database. The horizontal axis shows the Herfindahl-Hirschman Index as a measure of import concentration at the product level, the Concentration Index (CDI1). The vertical axis shows scarcity as the share of extra-EU in total imports, the Scarcity Index (CDI2). The bubble size represents the total value of extra-EU imports of a product. Red bubbles identify high-dependency products, whose concentration, scarcity and substitutability indexes exceeded the critical thresholds defined in European Commission (2021) (in parenthesis, for some of these products, the main exporter to the EU). Purple bubbles represent energy products (oil, gas and coal).

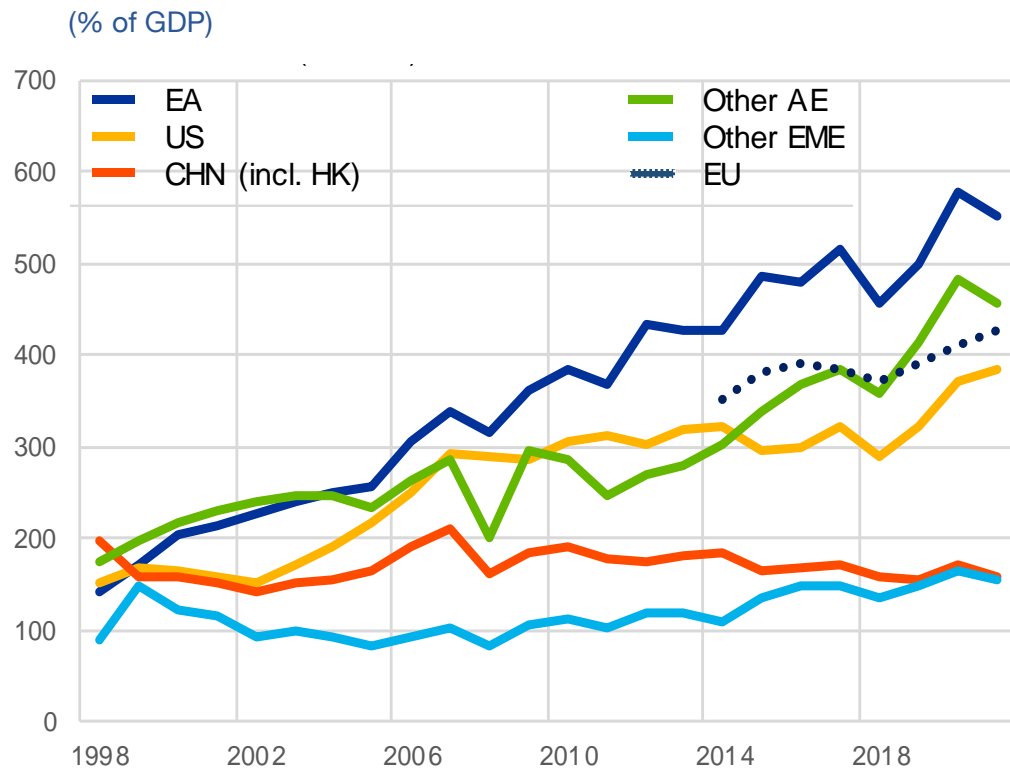
**EU import dependencies in energy products,
 with “political proximity” weights**

(quintiles)



Source: Chart 21 of the Report. Each index of product concentration (CDI1) is aggregated at the macro-sector level and then standardized (mean and standard deviation over the entire sectors sample), so as to obtain a z-score, that are color-coded (red score, 5). Second column: weighted by “political proximity” [Bailey et al., 2017].

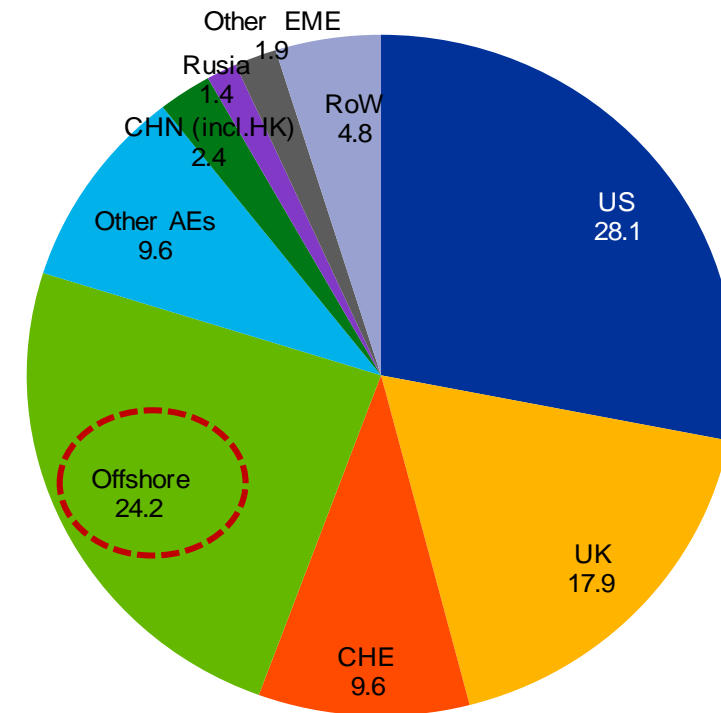
External financial asset and liability positions in the EA/EU and other major economies



Source: Chart 29a of the Report. The lines show the sum of gross external financial asset and liability stocks as a percent of GDP. The “EA” line shows extra-EA positions only, while the “EU line” shows extra-EU positions only (data only available since 2014).

Main origins of EU inward FDI

(%, average FDI stocks, 2015-2020)



Source: Chart 31b of the Report. Eurostat and own calculations. Each area shows shares in EU inward FDI stocks.

Payments

Dominant position of non-EU payment related services providers

Heavy reliance of EU payment related services providers on non-EU critical service providers

Financial market infrastructures

Dependence of EU market participants on third-country clearing services

Big Tech

Dominant position of foreign-based Big Tech companies

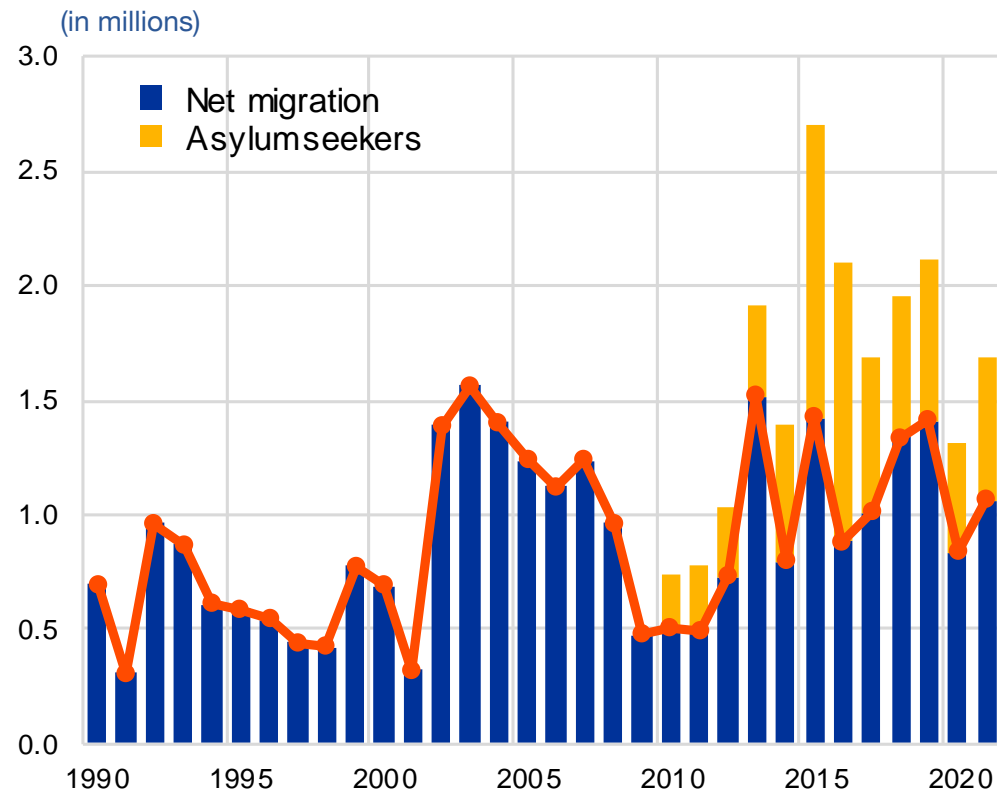
Crypto-assets

Complexity of the crypto-ecosystem and increasing links to the European financial market players

Cybersecurity

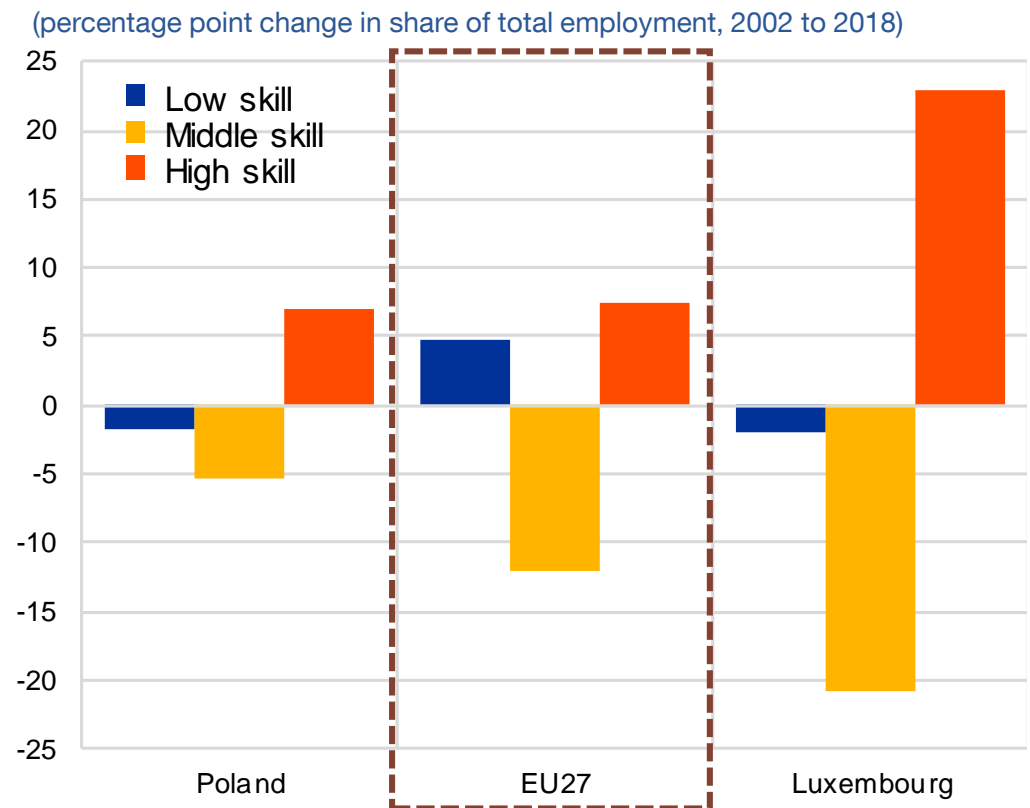
Vulnerability to cyber-attacks on the financial system and critical financial infrastructures

Net migration and asylum applicants in the EU



Source: Chart 41 of the Report. Source: Eurostat. Net migration data includes statistical adjustment of total population.

Polarisation/upgrading of the labour market in the EU



Source: Chart 42 of the Report. EU LFS. High-/medium-/low-skilled occupations include jobs under ISCO-88 major groups 1, 2, 3 / 4, 7, 8 / 5, 9, respectively.

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Some key OSA initiatives by EU authorities

	Instrument	Potential Pros	Potential Cons
Preserving an international level playing field	<ul style="list-style-type: none"> - Foreign government subsidies - Carbon border adjustment mechanism - Digital Markets Act 	Correct distortions, tackle carbon leakage	Potential interventionism, protectionism
EU industrial system for increasing resilience of internal markets	<ul style="list-style-type: none"> - Strategic investment facility - Action plan on critical raw materials - Circular economy plan - Strategic dependencies 	Reduce vulnerabilities, increase resilience	Heterogeneous shocks, fiscal cost
Protecting and strengthening the EU financial system	<ul style="list-style-type: none"> - The European economic and financial system: fostering openness, strength and resilience 	Prevent abuse of market power, lack of supervision/regulation and minimise financial stability risks	Economic inefficiency
Response to geostrategic threats	<ul style="list-style-type: none"> - FDI screening - Anti-coercion measures - Energy emergency measures 	<p>Prevent geostrategic conflicts and technology transfer</p> <p>Secure energy supplies at reasonable cost</p>	Economic inefficiency, abide with global rules

Decisions to relocate production and shortening of value chains

Resilience to domestic /global shocks

Unilateral or multilateral decisions

The domestic market: competition, productivity

Industrial policies: short-(demand) vs. long-run (potential) dilemmas

Demand support to develop certain industries

Crowding-out of other industries?

Key: long-term impacts

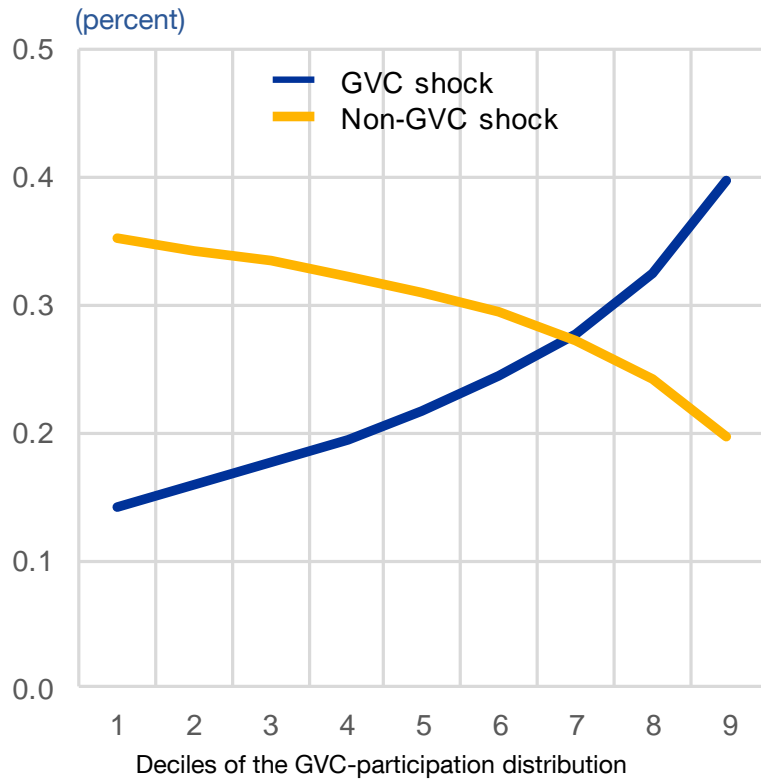
Subsidies as the right policies to support strategic areas?

Distortion of trade

Competitiveness

Justified for key technologies?

Output elasticity to GVC and non-GVC demand shocks

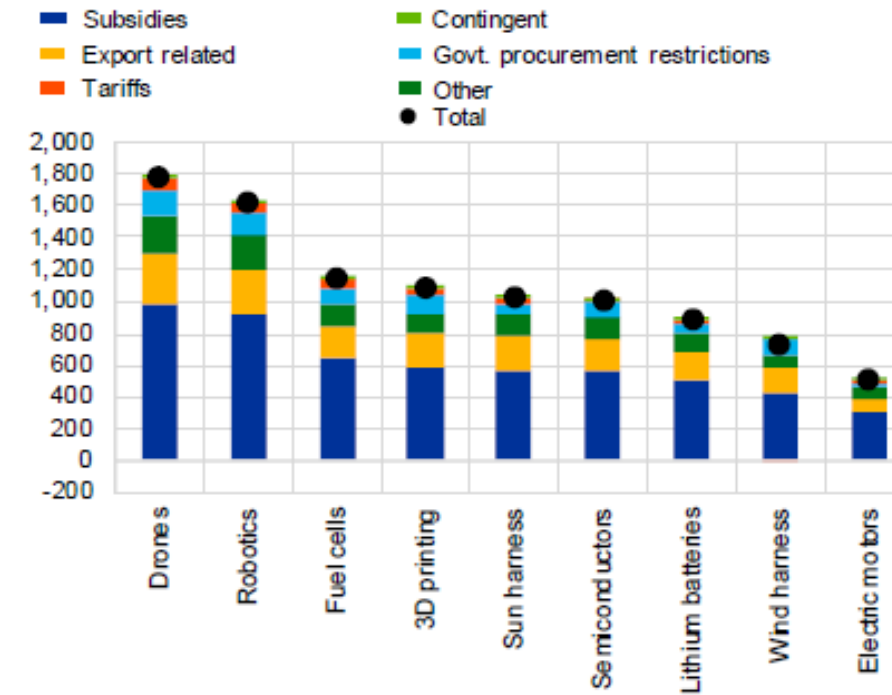


Source: Chart 49a of the Report. Borin et al. (2022). The blue (yellow) line reports the overall elasticity of gross output to GVC (non-GVC) shocks for different deciles of the GVC-participation distribution.

Subsidies and industrial policies

b) Select key technologies during 2008-20

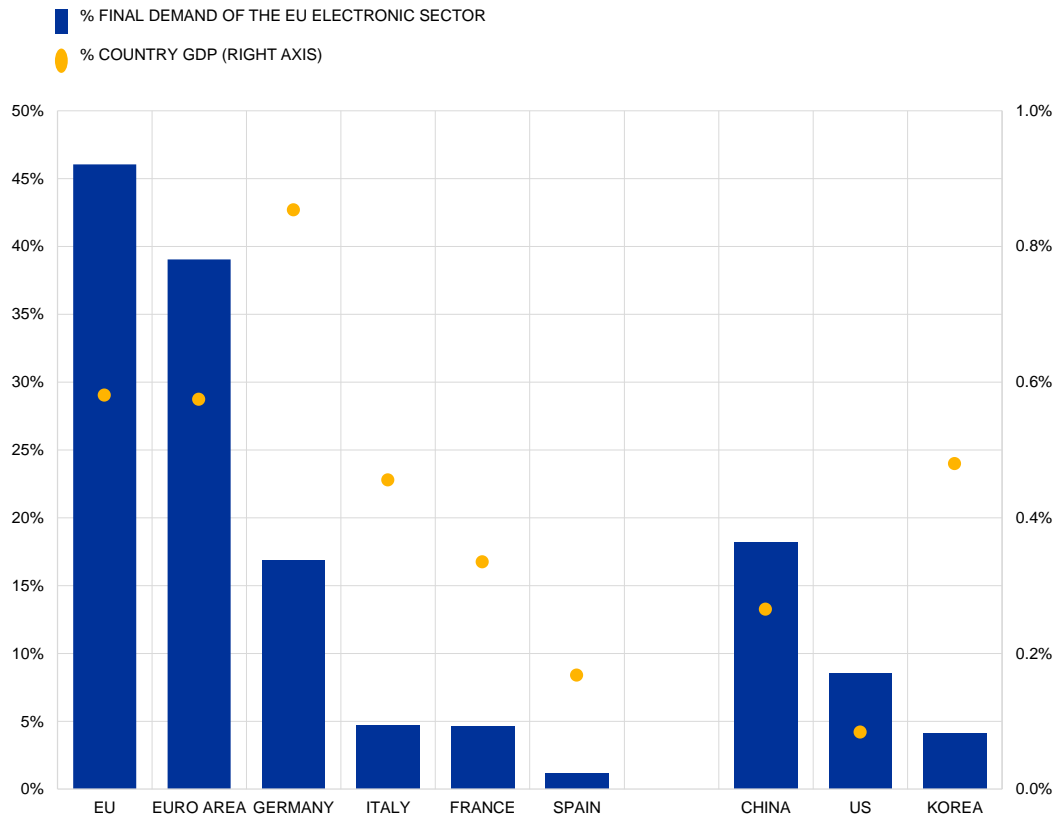
(harmful minus liberalising trade measures)



Sources: Global Trade Alert (GTA), European Commission and ECB staff calculations.

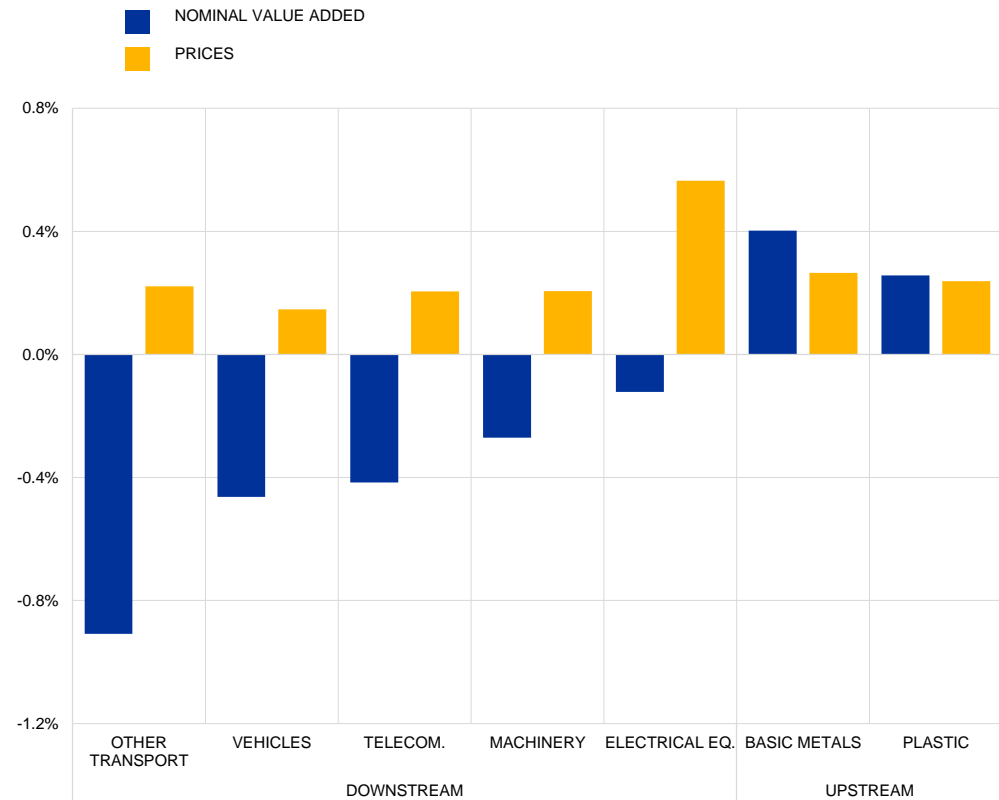
Notes: Frequency count is calculated by subtracting trade liberating (green/non-harmful) measures from trade discriminatory (red/harmful) measures based on the GTA taxonomy. The analysis represents full available country coverage. Other trade measures include capital controls, export quotas, FDI, finance, investment, migration, price controls, quantity controls, sanitary measures and technical barriers. Key technologies and their underlying use of strategic raw materials is defined by the European Commission.

Sources of value added to the final demand of the EU electronic sector



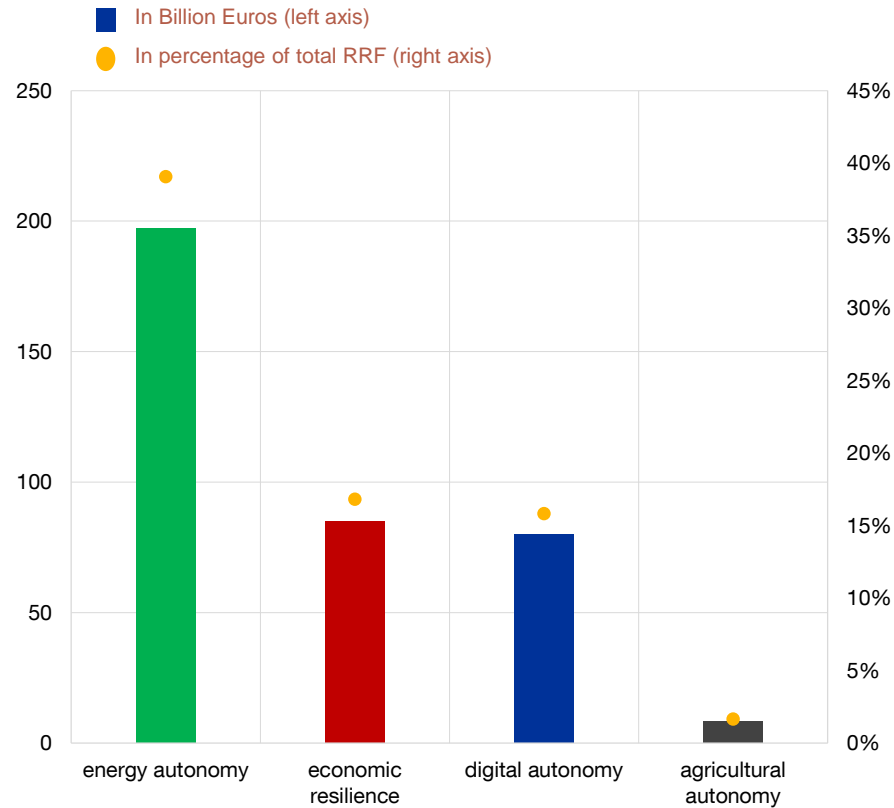
Sources: OECD TiVA, Eurostat and IMF WEO.

EU inter-sectoral spillovers of a higher demand to the electronic sector



Source: own calculations based on the model of Izquierdo et al. (2022).

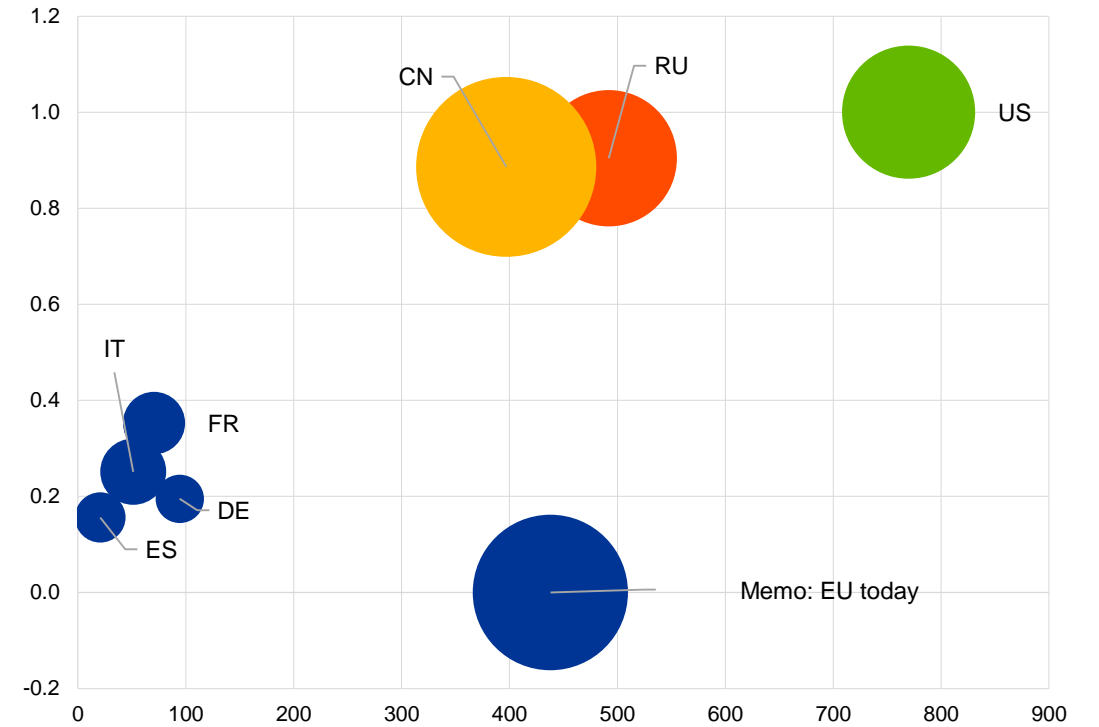
Contribution of NGEU to the EU’s OSA goals



Source: Box 3.5 of the Report. Own calculations based on “European Union countries’ recovery and resilience plans”, Bruegel, 9 June 2022.

Military spending and military capacity

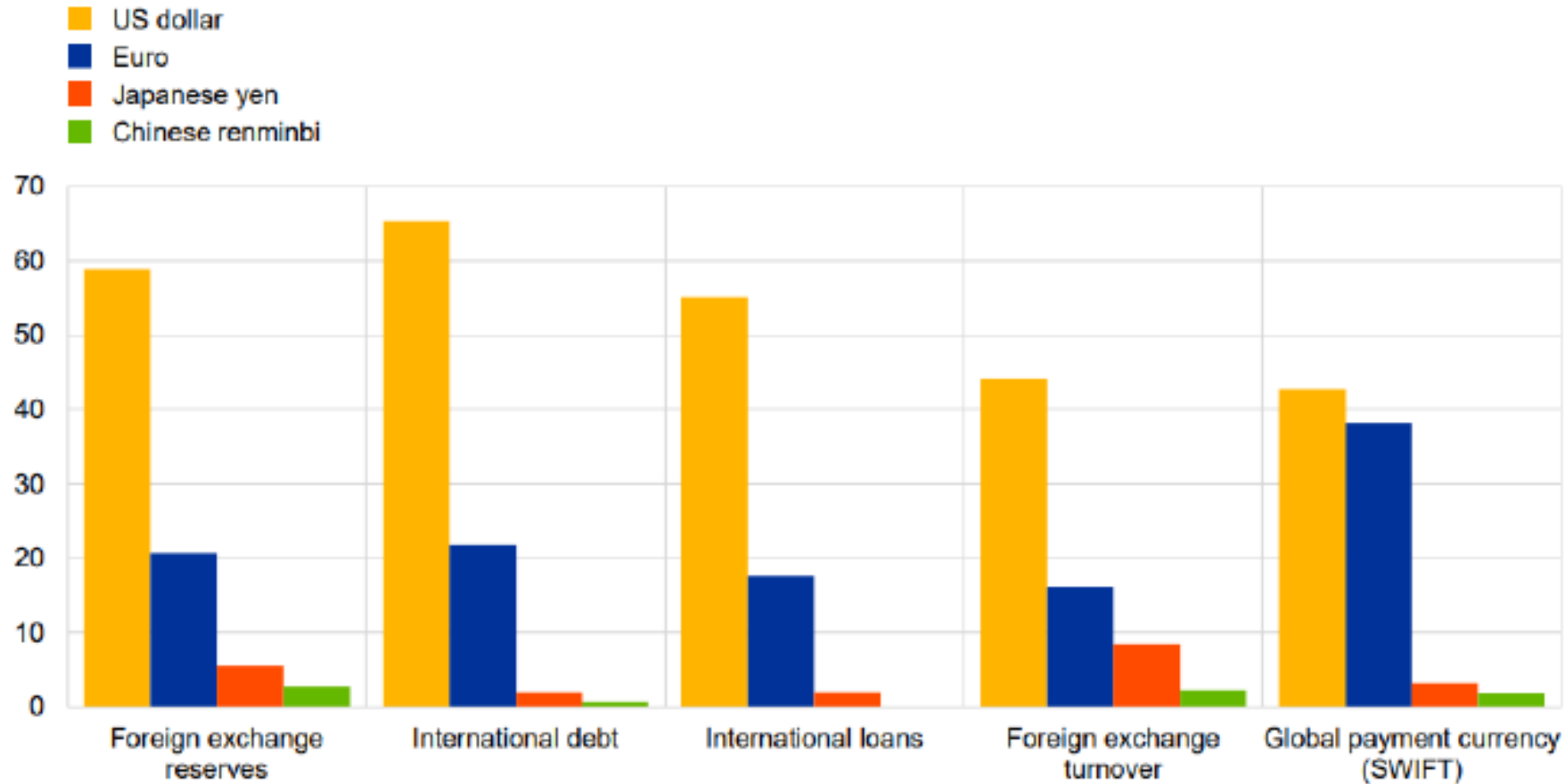
Military spending in USD bn (X-axis), military capacity (Y-axis), and military personnel (balloon size)



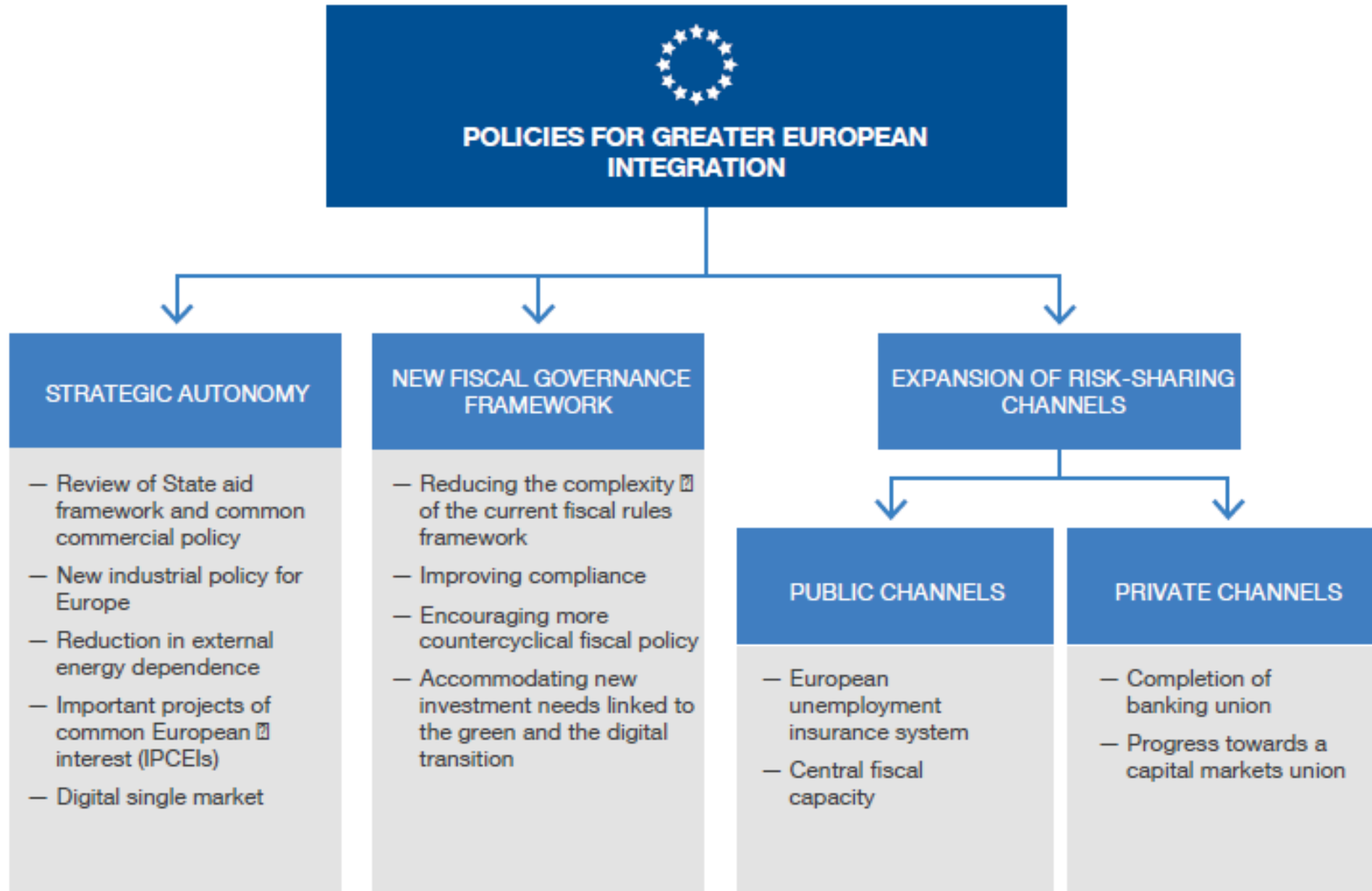
Source: Box 3.6 of the Report. The aggregated defence expenditure and the number of personnel in the EU Member States is comparable with that of other major geopolitical players such as China and Russia (memo item in chart).

Snapshot of the international monetary system

(percentages)



Source: European Central Bank (2022c).



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